OCTOBER 30, 1998 VOLUME 13, NO. IX

Money Matters

A Publication of the House Fiscal Analysis Department on Government Finance Issues

Replacing ISTEA: What Tea-21 Means to Minnesota

Abstract. This paper will detail the Federal Transportation Equity Act for the Twenty-First Century, or TEA-21, and the implications on transportation in Minnesota.

TABLE OF CONTENTS

Background

In June of 1998, President Clinton signed into law TEA-21, a six year act that will increase federal transportation funding to the states. TEA-21, or the Transportation Equity Act for the Twenty-First Century, replaces ISTEA, the Intermodel Surface Transportation Efficiency Act, in setting funding levels and formulas to distribute federal transportation trust fund revenues and identify local "high priority" projects.

The legislation puts emphasis on three goals; increasing the investment on infrastructure, furthering public safety efforts, improving air quality and minimizing the impact of the nation's transportation system on the environment. TEA-21 also strives to achieve many of these goals through federal incentives rather than mandates common in ISTEA.

Investing in Infrastructure

During ISTEA, infrastructure needs grew faster than trust fund revenues. In addition, 4.3 cents of federal gas tax revenue collected was diverted to deficit reduction and spent on programs outside the area of transportation. Under TEA-21, nearly all of motor fuel tax revenue is dedicated to the trust funds to be spent only on transportation projects and a "firewall" is created to guarantee a minimum level of funding to the states. However, as part of a Congressional compromise, transportation trust fund interest revenue will flow into the general fund and not be credited to the trust funds. Also a small portion of the gasohol revenue is diverted to the general fund. Federal motor fuel tax rates and their distribution dedications are shown in table 1.

Table 1
Federal Motor Fuels Taxes

		Distribution of Revenue			
Fuel Type	**Tax Rate Cents per Gallon**	**Highway Account**	**Mass Transit Account**	**Underground Storage Tank**	**General Fund**
Gasoline	18.4	15.44	2.86	0.1	NA
Diesel	24.4	21.44	2.86	0.1	NA
Gasohol (10% alcohol or greater)	13	6.94	2.86	0.1	3.1

Several increases in the tax on gasohol , or reductions in the tax credit, were also built in to the bill. Three one-tenth of one-cent increases in the gasohol tax take place the first of January in years 2001, 2003, and 2005. The tax rate on gasohol would rise from 13 cents per gallon to 13.3 cents by the end of TEA-21. The increased revenue would be deposited to the highway account bringing the cents per gallon to that account from 6.94 to 7.24 in 2003.

The total spending during the six years of ISTEA was $158 billion dollars versus TEA-21 spending that could equal more than $218 billion over six years. The legislation contains a "firewall" amount of $198 billion of guaranteed spending from trust fund revenues. An additional $20 billion in spending, referred to as "red zone" spending, is authorized by TEA-21, but those projects would be funded by general fund dollars and red zone projects will have to compete with other areas of the budget for priority in congress. Of the $198 billion of guaranteed spending, $162 billion would go toward highways, $4 billion more than total spending in the entire six years of ISTEA. The other $36 billion will flow toward mass transit systems.

Improving Public Safety

As with past federal transportation bills, a portion of the funds is tied to projects intended to improve public safety. In TEA-21, over two billion dollars are dedicated to safety programs. TEA-21 does, however, place more emphasis on incentives to improve safety, rather than federal mandates.

Two such programs provide one billion dollars in incentives over five years to promote safety initiatives. In early drafts of the bill, .08% blood alcohol mandates punished states that did not chose to lower legal limits for drinking and driving. In the final version, $500 million in construction incentives is provided to entice states to voluntarily lower blood alcohol limits to .08%. In federal fiscal year 1998, the states that have passed the .08% limit will receive a share of $55 million based on a population and road-mile based formula. By fiscal year 2003, the incentive grows to $110 million annually.

A similar program provides $500 million to increase seat belt use. If a state has had seat belt use greater than the national average for the previous two years **or** if that state has its own seat belt usage at a rate higher than any year since 1996, it would be eligible for a share of the incentive funds. In 1999, $82 million will be divided between the states that qualify, increasing to $112 million per year over the last two years of TEA-21.

Other safety programs include funding to reduce alcohol impaired driving through education and enforcement, increase the use of child safety seats, and dollars to rebuild roads and rail crossings that have a high accident rate.

Reducing Environmental Impact

There are several provisions in the bill that promote higher environmental standards. Dollars are provided for projects that ease congestion and improve traffic flow. Money is available to switch public fleets to alternative fuels and improve transit. There is also funding for advancing research and technology. Funding provisions for improving pedestrian walkways, bicycle and recreational trails are included as well.

The federal government also provides funding for states for a PM2.5 monitoring network. The network would monitor particulate matter of fine particles less than 2.5 microns. A study of the growth of pollution and the effects on the environment is also funded and to be delivered to Congress within two years.

TEA-21 and Minnesota

Minnesota should benefit greatly from the passage of TEA-21. There are net increases in funding for highways and transit, as well as authorizations for many high priority projects,(formerly referred to as demonstration projects) including light rail in the Hiawatha corridor in Minneapolis.

It is arguable that Minnesota does poorly with respect to our percentage federal funds received and the amount of fuel burned. In TEA-21, Minnesota suffers from an “ethanol effect”. The state requires that nearly all gasoline sold contain a minimum 10% oxygenate derived from agricultural products. This “gasohol” requirement puts the overwhelming majority of fuel sold in this state at a lower federal tax rate. (Table 1, previous page)

Though Minnesota accounts for 1.9% of the motor fuel consumed on an annual basis nationally, our state receives only 1.49% of the revenue derived from federal motor fuel tax. It is argued that Minnesota should collect a greater percentage of federal funds that more accurately reflects our fuel consumption. However, since gasohol is taxed at a lower rate that non-oxygenated fuel, Minnesota collects 1.49% of the revenue, but at the lower rate, only contributes 1.31% of the federal gas tax collected. Minnesota receives **more** federal funds than paid in tax, but receive **less** funding when compared to the percentage of fuel we consume under the provisions in TEA-21.

Regardless of an ethanol effect, Minnesota will take in more federal dollars for highways, bicycle trails, bridges, and transit projects because of TEA-21. Authorizations for 45 Minnesota high priority highway projects totaling $176 million were included in the legislation. Transit project authorizations for Minnesota are $146 million, and additional earmarked projects total $22 million.

Highways

Funding for highway construction will receive a substantial increase over levels during the six years of ISTEA. Minnesota should see significant increases in all areas of federal formula construction funding, except state demo projects. The table below shows average annual federal formula grants during ISTEA versus average levels in the TEA-21 legislation.

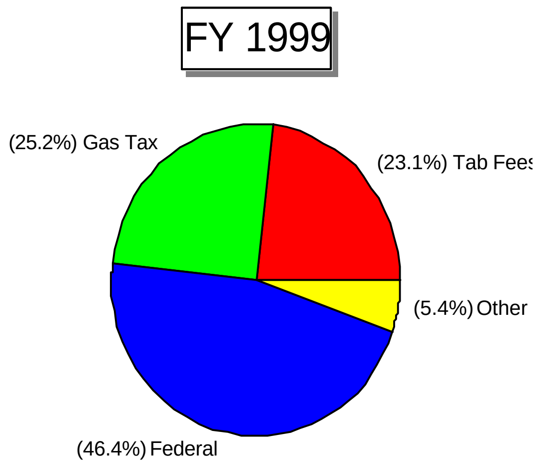
Table 2
ISTEA vs. TEA-21*
Minnesota Federal Formula Construction Funding
(dollars in millions)

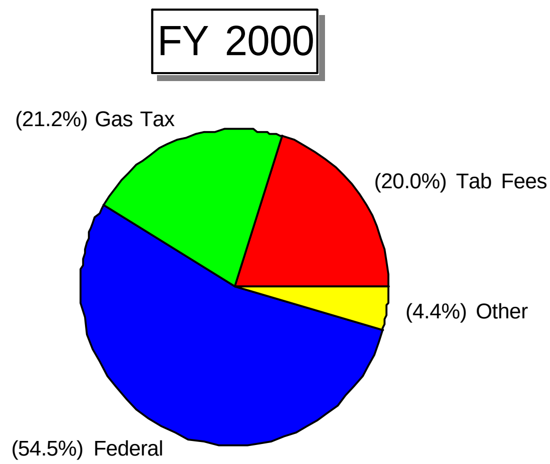
Category	**Avg. Annual Funding ISTEA**	**Avg. Annual Funding TEA-21**	**FY 1998 Federal Appropriation TEA-21**
Interstate/ National Highway System	$103.5	$165	$130.7
Bridge Funds	$24	$30.5	$24.5
STP- Urban	$21	$27.9	$21.8
STP- Enhancement	$8.9	$11.6	$9.1
Congestion Mitigation/ Air Quality (CMAQ)	$4.6	$16.8	$15
Demonstration Projects	$34.8	$31.1	$19.3
TOTAL	**$196.8**	**$283.7**	**$220.4**

*Table provided by MN/DOT Office of Investment Management

Though the increase in federal funding is substantial, it does not translate directly to increases in the construction program. Federal funds generally make up between thirty to forty percent of the state construction program in a given year. With increased dollars for the construction program, the needs of the department for personnel to design, engineer and manage projects also increase. MN/DOT's cost for "Program Delivery", the administrative costs relating to road construction, is roughly seventeen percent. Since federal dollars may not be used for program delivery, state revenues are used to administer new federal money. In addition, salary adjustments, increasing maintenance costs, and recent increases in State Patrol coverage, erode some of the growth in state transportation revenue. In other words, state dollars that went directly to road construction will fill some other needs and the increase in federal funds from TEA-21, though substantial, will not translate, dollar for dollar, to increases in the state road construction program. The Department estimates that the state road construction program could increase from a level of $445 million in state fiscal 1998 to an annual level of $535 million in state fiscal 2005, at the end of TEA-21. Current federal dollars to the construction program from formula and special project funds will jump from $225 to $275 in the first year of the TEA- 21 legislation as shown in the graphs below. Fiscal year 1999 represents a current $485 million dollar construction program, fiscal year 2000 represents a projected $505 million dollar program under the new TEA-21 funding formulas.

Construction Program Funding Breakdown





Transit

Increases in federal assistance for transit can be called more than substantial. At the end of TEA-21, federal funds to the Metropolitan Council Transit Operations or MCTO will more than double from the current levels. There are also increases in small urban and rural systems, fixed guideway funds and systems for elderly and disabled. Grants to MCTO, rural systems and fixed guideway grants will all have near 100% increases or greater during TEA-21. Rural grants now at less than $2.9 million increase to $5.2 million in the final year of the legislation. Fixed guideway grants, that can be used for transitways, light rail, transit hubs and other projects will increase from the current annual level of less than $2 million to over $7 million in federal fiscal 2003. Table 3 shows MCTO estimates for federal grants for metro area transit over the course of TEA-21. Current levels of funding are included in the column "FY 1997."

Table 3
MCTO Federal Assistance
(dollars in millions)

	FY 1997	1998	1999	2000	2001	2002	2003
Metro Transit	$14.1	$20.7	$24.1	$26	$28	$30	$32

In addition to annual federal grants for transit systems, two major transit project received authorization "placeholders" in the federal TEA-21. The legislation included literally hundreds of authorized projects to be funded by the federal government over the next six years. These projects included two major Minnesota initiatives, the Northstar corridor from St.Cloud to the Twin Cities and a light rail project along the Hiawatha corridor. Though the projects were mentioned in the bill as authorizations, appropriations have not been made for the $6 million attached to the Northstar corridor and the $120 million for light rail in the Hiawatha corridor.

All of the projects authorized will have to compete with each other in order to receive funding and may receive more or less than their TEA-21 authorization. The federal government will also have several requirements that must be met in order to qualify for funding. In the case of a light rail project, a plan must be submitted to finance the non-federal portion of construction as well as a plan for financing its' operation once completed. The plan must include "priority signaling" to allow the train to proceed through intersections with priority over cross traffic. Light rail should be of the "low floor" variety to allow easier access to the disabled and the elderly. These and other requirements are to ensure that the project will have the broadest appeal possible to commuters, and maximize potential ridership before federal funds are approved.

At the time the Hiawatha Corridor project came before the Minnesota House Transportation and Capital Investment Committees, the requests to the state were funds to match $200 million in federal dollars, though only $120 million has been included in the federal authorization. The state legislature included $46.5 million in the 1998 capital investment bill as a step toward state commitment to the project. Local proponents and MN/DOT, the agency given jurisdiction over the construction of a light rail system, will seek **over** $200 million in federal aid for construction in the competitive process. Before this can be done, the legislature and local units of government must first come up with firm commitments to finance the state and local share of construction and operation of the system.

For more information on this subject, contact John Walz, (651) 296-8236, john.walz@house.leg.state.mn.us.

Prepared by:
Fiscal Analysis Department,
Minnesota House of Representatives©October 1998